

Credit Acceptance (CACC)

\$332.91 (As of 05/08/20)

Price Target (6-12 Months): **\$330.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Shares of Credit Acceptance have outperformed the industry so far this year. The company's earnings surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Increase in finance charges driven by rise in demand for consumer loans will likely support profitability. Improvement in dealer enrollments and active dealers (despite tough competition) is a major positive for the company. Steady capital deployment activities are also commendable. However, mounting operating expenses, mainly owing to an increase in compensation and marketing costs are expected to hurt the bottom line to some extent. Deteriorating credit quality remains a major concern for the company. In fact, provisions are expected to remain elevated in the quarters ahead, given the rise in loans. A stretched valuation limits the stock's upside potential.

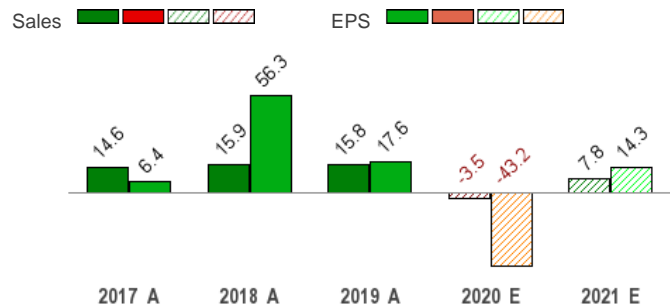
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$498.06 - \$199.00
20 Day Average Volume (sh)	309,395
Market Cap	\$6.0 B
YTD Price Change	-24.7%
Beta	1.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Bottom 21% (199 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/11/2020
Earnings ESP	0.0%
P/E TTM	9.6
P/E F1	16.9
PEG F1	1.1
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	403 E	401 E	395 E	387 E	1,549 E
2020	339 E	366 E	366 E	366 E	1,437 E
2019	354 A	371 A	379 A	386 A	1,489 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.22 E	\$5.89 E	\$6.32 E	\$6.76 E	\$22.46 E
2020	\$4.15 E	\$4.80 E	\$4.87 E	\$5.34 E	\$19.65 E
2019	\$8.08 A	\$8.68 A	\$8.73 A	\$8.60 A	\$34.57 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Headquartered in Southfield, MI, Credit Acceptance Corporation is a credit services company. The company, founded in 1972, operates through one segment. The segment primarily focuses on offering financing programs, and related products and services to automobile dealers in the United States enabling them to sell vehicles to consumers irrespective of their credit history.

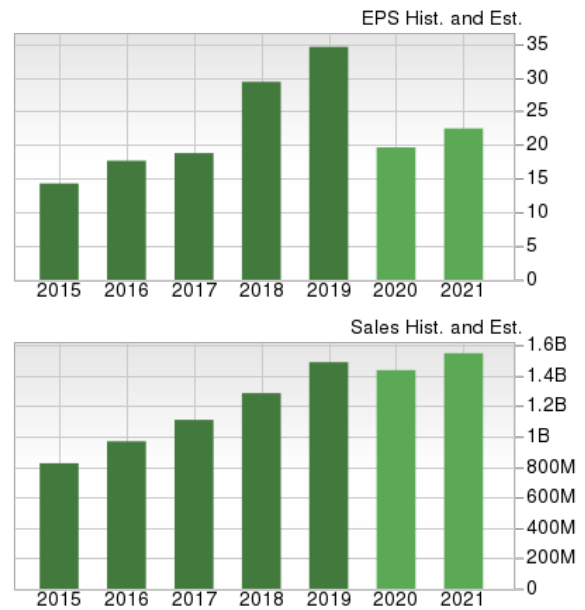
Credit Acceptance offers financing programs through a country-wide network of automobile dealers. These dealers benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for financing programs but actually end up qualifying for traditional financing.

Credit Acceptance has two loan programs:

- **Portfolio Program:** Under this, the company gives money to dealers (called Dealer Loans) in exchange for the right to service the underlying Consumer Loan.
- **Purchase Program:** Under this, the company buys Consumer Loans from the dealers (called Purchased Loan) and keeps all the money collected from the consumer.

Further, Credit Acceptance through its wholly-owned subsidiary, VSC Re Company, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by dealers on vehicles financed by the company.

As of Dec 31, 2019, the company's net loans receivable totaled \$6.7 billion, cash and cash equivalents (including restricted) were \$517.7 million, and total stockholders' equity was \$2.4 billion.



Reasons To Buy:

- ▲ Revenue growth remains a major positive for Credit Acceptance. The company's top line has witnessed a six-year (2014-2019) CAGR of 15.5%. Growth is primarily attributable to steady rise in finance charges, which is also the main revenue component (accounting for 92% of total revenues in 2019). Given the increase in demand for auto loans, finance charges are likely to continue improving, thereby supporting revenue growth. A decent rise in dealer enrollments and active dealers will further aid the company's top line.
- ▲ Credit Acceptance believes in returning capital to shareholders through stock repurchases instead of paying dividends. In February 2017, the company had authorized additional 1 million shares to be repurchased. Despite having a substantial debt burden, its high cash flow generating business model and low capital expenditure needs are likely to help sustain its share buybacks going forward.
- ▲ Credit Acceptance's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 29.25% compares favorably with 17.31% for the industry.

Growth in revenues, primarily driven by increase in consumer loans along with a rise in dealer enrollments, remains a positive for Credit Acceptance. Its share buyback policy seems impressive.

Reasons To Sell:

- ▼ Credit Acceptance has been witnessing a continuous increase in expenses over the past several years. Operating expenses have increased at a CAGR of 13.9% over the last six years (2014-2019). The increase has been mainly due to a rise in salaries and wages, and sales and marketing expenses. As the company continues to hire additional team members and sales force, costs are expected to remain elevated, thereby hurting bottom-line growth to an extent.
- ▼ Credit Acceptance's asset quality has been deteriorating over the past few years. While provision for credit losses declined in 2018, the same witnessed a six-year (2014-2019) CAGR of 42.9%. Provisions are expected to remain elevated, given the rise in loan balance and the coronavirus related concerns. Therefore, deterioration in the overall credit quality might hamper the company's financials in the future.
- ▼ As of Dec 31, 2019, Credit Acceptance had total debt worth \$4.54 billion, significantly higher than the cash and cash equivalents balance of \$577 million. Moreover, its total debt to total capital of 65.84% at the end of the fourth quarter of 2019 increased sequentially. While its times-interest-earned ratio of 5.36 is above the industry average of 3.72, it declined in the fourth quarter on a sequential basis. This shows that the company has relatively higher credit risk and it might not be able to meet its interest and/or debt repayments if economic situation worsens.
- ▼ Shares of Credit Acceptance have outperformed the industry over the past year. Despite this favorable trend, the company's current-year earnings estimates have been revised 4% lower over the past 30 days. Further, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are higher than the respective industry averages. Thus, given the concerns and downward estimate revisions, the stock has limited upside potential.

Continuously increasing expenses and deteriorating credit quality remain major concerns for Credit Acceptance. Additionally, a stretched valuation might limit the stock's upside potential.

Last Earnings Report

Credit Acceptance Q4 Earnings & Revenues Lag, Costs Up

Credit Acceptance's fourth-quarter 2019 earnings of \$8.60 per share missed the Zacks Consensus Estimate of \$8.96. However, the bottom line was up 10.4% year over year. Notably, the figure includes certain non-recurring items.

Results reflect solid revenue growth on the back of rise in loan balance. However, an increase in operating expenses and higher provision for credit losses were headwinds.

Excluding the non-recurring items, net income (non-GAAP basis) was \$173.5 million or \$9.22 per share, up from \$153 million or \$7.85 per share in the prior-year quarter.

In 2019, reported earnings per share of \$34.57 lagged the consensus estimate of \$35.02 but grew 17.6% year over year. Net income (non-GAAP basis) was \$658.4 million or \$34.70 per share, up from \$554.5 million or \$28.39 per share in 2018.

GAAP Revenues & Expenses Rise

Total revenues for the quarter were \$385.9 million, up 12.6% year over year. This increase was largely driven by rise in finance charges. However, the reported figure lagged the Zacks Consensus Estimate of \$388.6 million.

In 2019, total revenues grew 15.8% to \$1.49 billion, which was in line with the consensus estimate.

Operating expenses of \$170.7 million rose 20.4%. An increase in all cost components led to the rise.

Credit Quality Deteriorates

Provision for credit losses surged 53.7% from the year-ago quarter to \$27.2 million. Moreover, allowance for credit losses at the end of the fourth quarter was \$536 million, up 16%.

Strong Balance Sheet

As of Dec 31, 2019, net loans receivable amounted to \$6.7 billion, increasing from \$5.8 billion on Dec 31, 2018.

Total assets were \$7.4 billion as of the same date, increasing from \$6.2 billion on Dec 31, 2018. Also, total stockholders' equity was \$2.4 billion, up 18.3%.

Quarter Ending 12/2019

Report Date	Jan 30, 2020
Sales Surprise	-0.69%
EPS Surprise	-4.02%
Quarterly EPS	8.60
Annual EPS (TTM)	34.09

Valuation

Credit Acceptance's shares are down 28.8% in the year-to-date period and 35.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 43.1% and 27%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 39.9% and 21.1%, respectively.

The S&P 500 Index is down 10.4% in the year-to-date period but up marginally in the past year.

The stock is currently trading at 14.55X forward 12 months earnings, which compares to 13.02X for the Zacks sub-industry, 14.98X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.88X and as low as 8.76X, with a 5-year median of 12.97X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$330 price target reflects 15.25X forward earnings.

The table below shows summary valuation data for CACC

Valuation Multiples - CACC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.55	13.02	14.98	20.81
	5-Year High	21.88	13.02	16.18	20.81
	5-Year Low	8.76	4.38	11.24	15.19
	5-Year Median	12.97	8.73	13.94	17.44
P/TB TTM	Current	2.52	0.66	2.41	10.89
	5-Year High	6.71	1.57	4	12.78
	5-Year Low	1.73	0.48	1.99	6.02
	5-Year Median	4.04	1.2	3.47	9.2
P/S F12M	Current	3.87	0.87	4.98	3.25
	5-Year High	6.74	2.01	6.7	3.44
	5-Year Low	2.64	0.74	4.98	2.54
	5-Year Median	5.05	1.5	6.06	3.01

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ally Financial Inc (ALLY)	Neutral	3
Encore Capital Group Inc (ECPG)	Neutral	3
Ford Motor Company (F)	Neutral	3
PRA Group Inc (PRAA)	Neutral	4
General Motors Company (GM)	Underperform	5
Huntington Bancshares Incorporated (HBAN)	Underperform	3
CarMax Inc (KMX)	Underperform	5
Santander Consumer USA Holdings Inc (SC)	Underperform	3

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	CACC	X Industry	S&P 500	ALLY	HBAN	SC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	D	D
Market Cap	6.04 B	516.81 M	20.19 B	5.89 B	8.77 B	5.07 B
# of Analysts	3	2.5	14	3	12	6
Dividend Yield	0.00%	0.00%	2.12%	4.82%	6.94%	5.57%
Value Score	D	-	-	B	C	A
Cash/Price	0.11	0.79	0.06	1.06	0.22	0.45
EV/EBITDA	9.31	5.89	11.95	5.89	7.28	9.37
PEG Ratio	1.06	0.46	2.60	NA	3.82	NA
Price/Book (P/B)	2.66	0.83	2.75	0.44	0.83	0.99
Price/Cash Flow (P/CF)	9.19	3.05	10.78	1.98	4.97	1.84
P/E (F1)	16.94	6.77	19.85	39.45	18.80	201.57
Price/Sales (P/S)	4.06	0.84	2.03	0.95	1.57	0.64
Earnings Yield	5.90%	12.55%	4.83%	2.53%	5.32%	0.51%
Debt/Equity	1.93	1.93	0.75	2.30	0.93	7.82
Cash Flow (\$/share)	36.22	4.49	7.01	7.96	1.74	8.57
Growth Score	B	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	23.63%	10.98%	10.87%	15.39%	10.88%	1.28%
Proj. EPS Growth (F1/F0)	-43.16%	-42.47%	-9.87%	-89.25%	-63.78%	-97.26%
Curr. Cash Flow Growth	18.61%	17.70%	5.88%	-1.59%	-4.72%	20.07%
Hist. Cash Flow Growth (3-5 yrs)	19.03%	9.07%	8.55%	-4.75%	12.14%	25.86%
Current Ratio	35.47	3.42	1.24	0.99	0.89	63.41
Debt/Capital	65.84%	65.84%	44.23%	69.68%	45.42%	88.66%
Net Margin	44.06%	9.47%	10.68%	16.46%	19.65%	9.32%
Return on Equity	29.25%	17.31%	16.36%	6.92%	10.40%	10.95%
Sales/Assets	0.21	0.24	0.55	0.03	0.05	0.17
Proj. Sales Growth (F1/F0)	-3.49%	0.00%	-2.26%	-6.37%	-1.62%	0.12%
Momentum Score	B	-	-	F	F	F
Daily Price Chg	5.75%	3.71%	2.40%	4.64%	4.85%	2.47%
1 Week Price Chg	11.05%	8.30%	0.53%	8.88%	5.02%	15.19%
4 Week Price Chg	4.96%	0.38%	2.68%	-6.24%	-4.16%	-4.42%
12 Week Price Chg	-23.29%	-39.30%	-19.20%	-52.27%	-38.87%	-41.65%
52 Week Price Chg	-32.02%	-37.94%	-8.44%	-46.31%	-36.30%	-25.87%
20 Day Average Volume	309,395	350,685	2,398,409	6,897,109	11,911,829	1,081,834
(F1) EPS Est 1 week change	0.00%	-3.01%	0.00%	0.00%	-7.85%	-83.21%
(F1) EPS Est 4 week change	0.00%	-23.74%	-6.95%	-90.20%	-49.77%	-97.02%
(F1) EPS Est 12 week change	-4.30%	-25.62%	-15.68%	-90.51%	-64.39%	-97.17%
(Q1) EPS Est Mthly Chg	0.00%	-38.21%	-13.12%	-65.05%	-56.69%	-114.26%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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